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Inc.

The INC. Private 100

One hundred of the fastest growing privately held companies in the United States.

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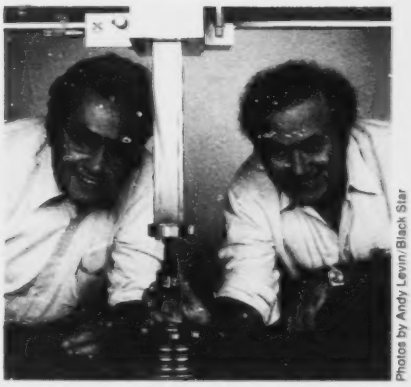

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Merry Christmas from all of us at Jack Daniel's

Jack Daniel Distillery, Lem Motlow, Prop., Inc.,
Route 1, Lynchburg (Pop. 361), Tennessee 37352

The INC. Private

One hundred of the fastest growing privately held companies in the United States.

In the fall of 1971, Bill Nicolai was camping in Washington State's North Cascade mountains when his tent collapsed and he almost froze to death. That winter Nicolai designed the Omnipotent – a highly durable waterproof tent that became the first product of Early Winters, a Seattle retail and mail-order business whose sales will easily top $8 million this year.

About the same time that Nicolai was coming to grips with the perils of backpacking, Jeff Stoops was taking his first step into the trucking business. With his father as a silent partner he purchased a tractor in 1971. The 18-wheeling became the first vehicle in an Indiana-based transcon-

By Bradford W. Ketchum, Jr.

The INC. Private 100.

tinental fleet with more than $15 million in revenues this year.

While Nicolai and Stoops were preoccupied with tents and trucks, Stanford B-School graduate Chuck Schwab launched his own brokerage firm. From a small, no-frills office in San Francisco's financial district in 1971, Charles Schwab & Co. has ticker-taped its way to $46 million in revenues this year, with 180,000 clients served by 31 offices coast-to-coast.

Nicolai, Stoops, and Schwab are all chief executives of companies that qualified as charter members of the INC. Private 100.

Statistically, the INC. Private 100 is a precedent-setting roster of 100 of the fastest-growing privately held smaller businesses in the United States. This list represents an elite club whose members have generated sales gains ranging from 972% to 9,372% over the past five years. (Six of these companies are profiled briefly beginning on page 46.)

The INC. Private 100 share a number of characteristics besides meteoric growth. The median sales of the group in 1980 was $5.9 million; 85 of the 100 companies were founded after 1970; and 98 boast black ink on their bottom lines. In addition, 73 of the 100 are service companies, and only 22 have grown through acquisition. These last two characteristics—service and internal growth—are in sharp contrast to their publicly owned cousins on the INC. 100 (May 1981), the majority of whom are manufacturers whose growth during the past five years was assisted by acquisitions.

Ownership aside, the primary differences between the INC. Private 100 and the INC. 100 are size, growth rate, and diversity. The closely held firms tend to be much smaller. Overall, they are about one-fifth the size of the fastest-growing public companies. Some 70 of the Private 100 firms are still below the $10-million mark in volume, versus 23 among the INC. 100. Only 7 of the private firms, as opposed to 55 of the public companies, have surpassed $25 million in annual sales.

The private companies also outpace the public ones in overall performance. From 1976 through 1980, sales of the Private 100 soared by 1,974%, resulting in a compound average annual growth rate of 113%, better than the INC. 100's compound annual rate of 89% and an outstanding achievement when measured against the 14% eked out by the country's 500 largest corporations.

The Private 100 are far more diverse than the publicly held companies, both in types of business and in geographic location. While the public companies represent a wide range of manufacturing and service businesses, the majority fall within three major industry clusters: computer and business-equipment makers, oil-and-gas producers, and manufacturers of medical products. And although there are INC. 100 companies in 25 states, the majority have headquarters in California, New York, Colorado, Texas, or Minnesota.

A cotton module built with Cotton Machinery Co. equipment dwarfs Jeff Johnson.

Andrée Abecassis

Not surprisingly, the largest segment of manufacturers in the Private 100, six firms, are in the computer field. Beyond that, the roster includes companies that make products ranging from Easter-egg kits and pet-food flavors to road-repair machinery and ammunition systems for the Air Force.

The 73 service companies on the list are even more diverse. The two largest groups consist of seven software/data

TOP 20 PERFORMERS IN SALES PER EMPLOYEE

Using 1980 sales per employee as a measure of productivity, here are the top 10 producers in two industry categories.

Manufacturing

Rank	Company (Private 100 rank)	Sales per employee
1.	Sterling Oil & Chemical (93)	$6,662,000
2.	Vital Signs (33)	291,667
3.	Decor (81)	172,000
4.	Morgan Mfg. (61)	166,667
5.	Precision Rolled Products (11)	142,219
6.	Crafco (28)	118,520
7.	Astro Wire & Cable (52)	113,733
8.	Numeridex (25)	105,185
9.	North Star Computers (2)	103,333
10.	Reactive Metals & Alloys (99)	103,255

Service

1.	John Galt (78)	$1,063,273
2.	Trend Goup (41)	614,222
3.	New England Rare Coin Galleries (74)	576,435
4.	W-B Pump & Supply (49)	388,938
5.	Country Stove and Shelter (34)	256,222
6.	Associated Druggists (48)	249,318
7.	F.J. Sciame Construction (14)	245,886
8.	Furniture Consultants (24)	233,778
9.	Crum Electric Supply (21)	199,208
10.	Alfred S. Buyer (47)	181,550

INC. PRIVATE 100 PROFILE

The composite statistics of the 100 privately held small businesses offer a new measure of fast growth. The group's sales soared from $53.8 million in 1976 to $1.1 billion in 1980, at a compound annual rate of 113%. At the same time, employment skyrocketed by more than 30,000 jobs. Three out of 4 have grown internally and all but 2 are profitable.

No. of firms by industry	
Manufacturing	27
Services	73
Total sales in 1980 ($ millions)	1,115
Percent change (1976-80)	+1,974
Percent change (1979-80)	+79.4
Median sales in 1980 ($ millions)	5.9
Median sales in 1976 ($ millions)	0.3
Comp. average annual sales growth (1976-80)	
Total (%)	113.4
Range (%)	81-212
Median (%)	98
No. operating at a profit	98
No. acquiring other firms (1976-80)	22
No. founded since 1971	85
Average age (years)	8.2
Total no. of employees	
1980	32,684
1976	2,332
Percent change in employment (1976-80)	+1,302

INC. Private 100 letterforms by Tim Girvin

One hundred of the fastest growing

Rick Ansay (left) and Harold "Hap" Landis of American Awning & Patio Co.

Bruce McAllister/Gamma Liaison

processing businesses and seven high-tech engineering support firms. Beyond those, the list includes a handful of personnel specialists, four restaurant chains, and three publishers.

The five wholesalers in the Private 100 are companies that sell electrical supplies in Wyoming, furniture in Washington, drugs in Kansas, wood stoves in Connecticut, and wine in Arizona. Overall, the Private 100 are headquartered in 36 states and the District of Columbia; California, Texas, Illinois, Massachusetts, and North Carolina are the leading home states.

While the statistics reflect the explosive growth and diverse nature of the INC. Private 100, the true significance of this elite group is the human element. Behind each entity is an entrepreneur whose ingenuity and perseverance has led to outstanding growth. That growth must be measured in terms of people as well as sales.

In 1976, the Private 100 employed a total work force of slightly more than 2,300 people. Five years later, that work force had grown by more than 30,000 jobs, at a compound annual growth rate of 93%. As job generators, the fastest-growing smaller companies are far ahead of their giant corporate counterparts. In the same five-year base period, for example, the nation's 500 largest corporations hiked their employment by 7%, a compound growth rate of only 1.8%.

Will the Private 100's spectacular growth continue? Where will these emerging enterprises go from here? Some will undoubtedly succumb to merger mania, cashing in their chips as a result of offers that they can't refuse. A few others, eager for capital and liquidity, will relinquish their closely held ownership and cross the threshold into the public market. And one or two will end up in the casualty column, victims of quiet liquidation and/or noisy creditors.

Herman Gilbert of Apollo Bedding Co.

Tom Simon/Gamma Liaison

INC. PRIVATE 100/INDEX

Company (Rank)	State
A-America (3)	Wash.
Acsis (89)	N.Y.
Ad-Tek Engineering Services (71)	Calif.
Advanced Technology (32)	Va.
American Awning and Patio (94)	Colo.
Apollo Bedding (79)	Ohio
Associated Druggists (48)	Kans.
Astro Wire & Cable (52)	Mass.
Atlas Energy Systems (80)	Calif.
Austin-Nelson Construction (39)	Tex.
Ava Care (83)	Tex.
Brock International Security (95)	Vt.
Buyer, Alfred S. (47)	Mass.
Career Blazers Personnel Services (73)	N.Y.
Centec (86)	Va.
Century Data Systems (84)	N.C.
Coastal Compression Service (70)	La.
Coloney, Wayne H. (12)	Fla.
Columbia Data Products (13)	Md.
Computer Store (29)	Mass.
Cotton Machinery (31)	Calif.
Country Stove and Shelter (34)	Conn.
Crafco (28)	Ariz.
Cromemco (7)	Calif.
Crum Electric Supply (21)	Wyo.
DHL (43)	Calif.
Dallas-Ft. Worth Distributing (88)	Tex.
Data Electronics (56)	Calif.
Data Translation (58)	Mass.
Decor (81)	Ala.
Denver Spectrum (76)	Colo.
Design 1 (54)	Calif.
Diamond Enterprises (53)	Utah
Digital Systems House (36)	Ill.
Double "L" Mfg. (77)	Ida.
Early Winters (38)	Wash.
Elcan Investments (59)	Ala.
Food Specialist (27)	Calif.
Furniture Consultants (24)	N.Y.
Galt, John (78)	Md.
Godfather Investments (18)	Nebr.
Golden Corral Restaurants (10)	N.C.
Industrial Fabricators (68)	Tenn.
Input (97)	Calif.
Jacoby & Meyers (23)	Calif.
K&B Engineering (20)	Calif.
K.S. Inc. (90)	Minn.
Kassouf Parking (30)	Ohio
Kirke-Van Orsdel (8)	Iowa
Knight Equipment (50)	Calif.
Le Beacon Pressé (19)	Wash.
Levy Security Consultants, B.W. (98)	Ill.
Los Alamos Technical Associates (40)	N. Mex.
M & M Products (22)	Ga.
McCormack & Dodge (72)	Mass.
Medevac (87)	Calif.
Microcomputer Systems (35)	Calif.
Microtech Mfg. (55)	Minn.
Morgan Mfg. (61)	Ill.
Navidyne (37)	Va.
New England Rare Coin Galleries (74)	Mass.
North Star Computers (2)	Calif.
Numanco (45)	R.I.
Numeridex (25)	Ill.
PBM Office Products (46)	Ohio
PTC (9)	Pa.
Parker Construction (17)	S.C.
Phone Directories (100)	Utah
Polk Audio (69)	Md.
Potomac House (26)	W. Va.
Precision Rolled Products (11)	Nev.
Progressive Graphics (82)	Ill.
Quorum Clubs of Texas (44)	Tex.
Raven Systems & Research (96)	D.C.
Reactive Metals & Alloys (99)	Pa.
Research, Analysis & Management (51)	Md.
SAS Institute (15)	N.C.
Saddlebrook (57)	Mass.
Schwab, Charles (92)	Calif.
Sciame Contruction, F.J. (14)	N.Y.
Selective Personnel (91)	N.J.
Service Industries of America (85)	Ariz.
Sterling Oil & Chemical (93)	Mich.
Stoops Express (1)	Ind.
Sun Hill Industries (67)	Conn.
TSR Hobbies (6)	Wisc.
Techexport (75)	Mass.
Technology for Energy (4)	Tenn.
Telecommunications Specialists (60)	Tex.
Trend Group (41)	Pa.
Tudor Systems (42)	N.C.
Vector Group (16)	Va.
Vintage Selections (64)	Ariz.
Vital Signs (33)	N.J.
W-B Pump & Supply (49)	Tex.
Western Control Equipment (62)	Calif.
Willis Companies (5)	Tex.
Windamatic Systems (65)	Ind.
Wolcott Associates, John (66)	Calif.
Wren Associates (63)	N.J.

privately held companies in the U.S.

HOW THE INC. PRIVATE 100 WERE SELECTED

Identifying 100 of the fastest-growing privately owned companies in the United States was a massive editorial project. Modeled on the annual INC. 100 ranking of publicly held corporations, the project, launched last spring, began with the establishment of four criteria.

To be included in the Private 100, each company had to meet the following qualifications:

1. The company is an independent, privately held corporation, proprietorship, or partnership. All businesses were eligible, with the exception of banks and trust companies.
2. The company had to show an operating history of at least five years, spanning the base period 1976-80. (The final ranking is based on the percentage increase in sales between 1976 and 1980). Companies founded after 1976 were excluded.
3. The company had to have sales in 1976 of at least $100,000, but less than $25 million.
4. The company's 1980 sales had to exceed its 1979 sales. Companies showing spectacular growth in the five-year period, but a sales decline in 1980, were excluded.

While the criteria were relatively simple, the task of identifying the 100 finalists was complex, both because of the large numbers of companies involved, and because the project relied on voluntary data generally accepted as strictly confidential.

Various estimates suggest that the number of closely held enterprises that make up the universe of potential Private 100 firms range from 100,000 to more than 4 million. Latest Internal Revenue Service figures, for example, show that 3.9 million corporations and partnerships filed tax returns in 1980. Relying on U.S. Enterprise Statistics, INC. estimates that the total universe consisted of some 205,400 companies—the number of U.S. firms whose sales exceed $1 million. The growth rates achieved in the five-year base period meant that no company whose sales were less than $1 million in 1980 could qualify for the final listing.

Having gained an appreciation of the magnitude of the small business universe, INC. proceeded with its research by relying on two basic sources: its readers and existing in-house records. In addition, business groups, trade associations, and major professional service firms were alerted to the search for small high-growth companies by letter, print advertisements, and personal contact.

Business reply cards were inserted in INC.'s June and July 1981 issues inviting readers to nominate candidates for the Private 100. Drawing on the publication's national circulation of more than 400,000, the cards generated more than 3,000 entries between June 1 and August 31, the specified deadline.

During the same period, an existing in-house data base originally compiled in conjunction with the 1980 INC. 100 was screened to produce an additional 14,000 candidates. Another 500 names were added from reports, directories, and editorial files. On August 1, data forms were sent to 14,500 chief executives. A second mailing, directed to the candidates submitted by readers, followed one month later. More than 2,500 responses were received from a total mailing of 17,500.

From those responses, 500 smaller privately owned companies whose sales had more than tripled in the past five years were identified and ranked by percentage gain in sales. Information on the top 100 was then verified through signed statements from company officers, support material from outside professionals, and telephone interviews.

INC. makes no claim that its final charter list is a definitive ranking of the 100 fastest-growing private companies in the country. Clearly, one of the reasons for remaining closely held is to avoid having to reveal financial information. But the Private 100 roster, the only one of its kind, does offer a measure of the scope and performance of the country's closely held smaller businesses.

Most of the companies, however, will continue to thrive. They didn't set out to rack up record growth; it became the gratifying byproduct of their ingenuity and perseverance.

Bill Nicolai, Jeff Stoops, and Chuck Schwab can attest to that. Excited by new developments in fabrics and design, Nicolai intends to continue creating tents, rainwear, and other outdoor gear that promise to accelerate his retail and mail-order business.

Jeff Stoops was recently stopped in his tracks by an attractive offer for his company that would have enabled him to retire at age 34. He admits that he considered the deal for a few days, seriously weighing the future of long-haul trucking in light of deregulation, escalating fuel costs, and the proliferation of the railroads' piggybacks. "But," he says, "the truth is I have a lot of fun running this company. I've got a lot of young people here, and they keep the business exciting. It may be corny, but I'm having too much fun to quit."

Chuck Schwab pegs himself as "the Freddie Laker of the brokerage world" and envisions a $200-million operation down the road. He is confident that in the year ahead his firm will handle more than $2 billion worth of security transactions. While he dabbles in the market himself, Schwab is also quick to point out that his only real investment right now is his company. "I've got only one egg in my basket," he says, "and I watch that basket very, very closely!"

It's a safe bet that among the INC. Private 100 there are at least 99 other owner-managers who are doing exactly the same thing. □

Editor's note: The information published in this report is based on material supplied by the companies. In each case it has been verified in writing by a company officer, by supporting financial statements, and by telephone interviews between INC. *editors and company principals. The published information is the only material that* INC. *will make available. Under no circumstances will* INC. *release the names of company officers, addresses, or telephone numbers. Furthermore, unpublished proprietary information gathered during the course of the research will remain strictly confidential. This policy applies to the 100 companies listed as well as to those companies that submitted information as candidates for the ranking but failed to qualify.*

Bradford W. Ketchum, Jr., is a senior editor at INC.

The INC. Private 100

Company (by rank)	Sales Growth 1976-80 Percent increase	Compound annual rate	'80 Sales ($000)	'76 Sales ($000)	Profit range* '80	'76	No. of employees '80	'76	Acquisitions '76-'80	Date founded	Business description
1. **Stoops Express** (Daleville, IN)	9,372%	212%	$10,641	$ 112	C	C	152	18	No	1976	ICC regulated motor carrier
2. **North Star Computers** (San Leandro, CA)	7,650	197	15,500	200	B	B	150	2	No	1976	Mfr. microcomputers
3. **A-America** (Seattle)	6,876	189	7,779	112	C	C	56	4	No	1974	Importer/wholesaler furniture, gifts
4. **Technology for Energy (TEC)** (Knoxville)	6,249	182	9,310	147	C	A	128	2	No	1975	High-tech services to utilities
5. **Willis Companies** (Houston)	5,908	178	9,791	163	C	D	108	5	No	1976	Personnel services, clerical & medical
6. **TSR Hobbies** (Lake Geneva, WI)	5,233	170	16,000	300	B	B	120	12	No	1975	Publisher of games
7. **Cromemco** (Mountain View, CA)	5,067	168	31,000	600	B	C	600	17	No	1975	Mfr. microcomputers
8. **Kirke-Van Orsdel** (Des Moines)	4,529	161	6,527	141	B	D	220	23	Yes	1974	Insurance broker-administrator
9. **PTC** (Bensalem, PA)	4,264	157	14,965	343	C	C	184	21	No	1974	Telecommunications systems sales/service
10. **Golden Corral Restaurants** (Raleigh, NC)	3,929	152	81,245	2,017	B	B	5,300	200	No	1973	Family steak house restaurants
11. **Precision Rolled Products** (Reno)	3,870	151	20,764	523	B	C	146	10	No	1974	Mfr. specialty metal bars
12. **Wayne H. Coloney** (Tallahassee)	3,777	150	18,526	478	C	D	300	32	No	1970	Mfr. machine systems
13. **Columbia Data Products** (Columbia, MD)	3,704	148	4,032	106	B	B	90	5	No	1975	Mfr. computers & peripherals
14. **F.J. Sciame Construction** (New York)	3,575	146	8,606	234	C	C	35	4	No	1975	General contractor
15. **SAS Institute** (Cary, NC)	3,397	143	4,864	139	B	B	70	5	No	1976	Computer software
16. **Vector Group** (Alexandria, VA)	3,284	141	4,135	122	C	C	75	12	No	1975	Data processing/communications consulting
17. **Parker Construction** (Charleston, SC)	3,200	140	3,300	100	A	A	40	4	No	1975	General contractor
18. **Godfather Investments** (Omaha)	3,133	138	194,000	6,000	A	A	14,000	433	No	1973	Franchisor/owner Godfather's Pizza restaurants (580)
19. **Le Beacon Pressé** (Seattle)	3,040	137	15,700	500	A	B	147	3	Yes	1975	Publisher of *Who's Who* reference books
20. **K&B Engineering** (Santa Ana, CA)	3,021	136	4,400	141	A	B	315	11	Yes	1972	Telecommunications engineering
21. **Crum Electric Supply** (Casper, WY)	2,979	136	4,781	155	C	B	24	1	No	1976	Electrical wholesaler
22. **M & M Products** (Atlanta)	2,934	135	25,983	856	B	B	320	20	Yes	1973	Mfr. personal care products
23. **Jacoby & Meyers** (Los Angeles)	2,833	133	8,800	300	C	C	231	19	No	1972	Retail law firm
24. **Furniture Consultants** (New York)	2,833	133	6,312	215	C	C	27	2	No	1975	Office furniture dealer
25. **Numeridex** (Wheeling, IL)	2,798	132	5,680	196	C	D	54	12	No	1965	Mfr. computer-aided mfg. systems
26. **Potomac House** (Charleston, WV)	2,772	131	3,590	125	A	D	305	3	Yes	1976	Nursing home chain
27. **Food Specialist** (Oakland, CA)	2,765	131	11,017	385	B	B	500	165	Yes	1952	Restaurants
28. **Crafco** (Chandler, AZ)	2,633	129	5,926	217	B	B	50	10	No	1976	Mfr. sealants & road repair machinery
29. **Computer Store** (Sudbury, MA)	2,373	123	10,454	423	B	D	71	5	Yes	1976	Computer retailer
30. **Kassouf Parking** (Cleveland)	2,370	123	4,100	166	C	A	60	10	Yes	1975	Operator of parking lots & garages

*After-tax net income as a percent of sales: A = 16% or more; B = 6%-15%; C = 1%-5%; D = loss.

One hundred of the fastest growing

Company (by rank)	Sales Growth 1976-80: Percent increase	Compound annual rate	'80 Sales ($000)	'76 Sales ($000)	Profit range* '80	'76	No. of employees '80	'76	Acquisitions '76-'80	Date founded	Business description
31. Cotton Machinery (CMC) (Livermore, CA)	2,355%	123%	$ 9,560	$ 389	C	C	134	11	No	1975	Mfr. agricultural equipment
32. Advanced Technology (McLean, VA)	2,286	121	19,113	801	C	B	531	5	No	1976	Multidisciplinary professional services
33. Vital Signs (East Rutherford, N.	2,233	120	3,500	150	A	C	12	1	No	1972	Mfr. anesthesia equipment
34. Country Stove and S (East Hartford, CT)	2,144	118	2,306	103	A	B	9	1	No	1975	Wholesaler of wood/coal stoves & parts
35. Microcomputer Systems (Sunnyvale, CA)	2,107	117	11,938	541	C	C	158	18	No	1974	Mfr. controllers & disk drives
36. Digital Systems House (Batavia, IL)	2,019	115	2,500	118	B	B	33	3	No	1975	Distributor of business computers
37. Navidyne (Newport News)	1,953	113	6,226	303	B	B	115	8	No	1973	Mfr. marine electronics
38. Early Winters (Seattle)	1,952	113	6,959	339	C	C	114	25	No	1973	Mfr. tents; retail/mail-order outdoor equip.
39. Austin-Nelson Construction (Austin, TX)	1,929	112	11,533	568	B	D	220	20	No	1967	General contractor
40. Los Alamos Technical Associates (Albuquerque)	1,900	111	5,000	250	B	B	66	5	No	1976	Engineering consultants
41. Trend Group (Valley Forge, PA)	1,774	108	22,112	1,180	B	B	36	4	Yes	1964	Leasor of computers & communications equipment
42. Tudor Systems (Charlotte, NC)	1,753	107	2,550	138	B	D	25	2	No	1975	Computer software sales
43. DHL (Burlingame, CA)	1,737	107	52,240	2,844	C	D	950	200	Yes	1969	International air freight forwarder
44. Quorum Clubs of Texas (Corpus Christi)	1,678	105	1,920	108	B	B	116	10	No	1976	Night clubs & restaurants (5)
45. Numanco (Pawtucket, RI)	1,676	105	7,300	411	C	C	175	50	No	1975	Technical services for nuclear power industry
46. PBM Office Products (Cleveland)	1,602	103	2,389	140	B	A	36	10	No	1974	Distributor of office products
47. Alfred S. Buyer (Needham, MA)	1,564	102	3,631	218	C	C	20	2	No	1966	Recruitment advertising agency
48. Associated Druggists (Wichita)	1,455	99	5,485	353	B	C	22	6	Yes	1972	Wholesaler of drugs & retail products
49. W-B Pump & Supply (Pampa, TX)	1,451	98	12,446	803	C	B	32	8	No	1971	Oilfield supplier, tubular goods
50. Knight Equipment (Costa Mesa, CA)	1,443	98	3,580	232	B	A	56	10	No	1972	Mfr. electro-mechanical systems
51. Research, Analysis & Management (Rockville, MD)	1,439	98	2,574	167	B	B	67	8	No	1976	Ship systems engineering & naval support services
52. Astro Wire & Cable (Worcester, MA)	1,410	97	8,530	565	B	B	75	10	No	1976	Mfr. wire & cable
53. Diamond Enterprises (Salt Lake City)	1,383	96	4,850	327	B	C	49	5	Yes	1971	Rental centers & convenience stores
54. Design 1 (Los Angeles)	1,368	96	2,935	200	B	B	25	3	No	1976	Commercial interior designer
55. Microtech Mfg. (St. Louis Park, MN)	1,359	95	5,794	397	B	C	135	23	Yes	1973	Precision machine shop
56. Data Electronics (San Diego)	1,350	95	11,815	815	B	C	300	30	No	1974	Mfr. computer peripheral equipment
57. Saddlebrook (Cambridge, MA)	1,333	95	9,247	645	C	D	134	25	No	1974	Computer services for financial institutions
58. Data Translation (Marlboro, MA)	1,326	94	4,806	337	B	B	70	6	No	1973	Mfr. microcomputers
59. Elcan Investments (Mobile)	1,306	94	2,211	157	B	A	51	3	No	1975	TV & appliance rentals
60. Telecommunications Specialists (Houston)	1,305	94	11,065	787	A	B	160	20	Yes	1974	Telecommunications equip. sales/service
61. Morgan Mfg. (Paris, IL)	1,300	93	3,500	250	A	A	21	2	No	1976	Mfr. pet food flavors
62. Western Control Equipment (Garden Grove, CA)	1,261	92	12,299	904	C	C	350	40	No	1956	Mfr. heaters, infant/medical flotation systems
63. Wren Associates (Princeton, NJ)	1,253	92	1,475	109	B	C	37	3	No	1972	Corporate communications services
64. Vintage Selections (Scottsdale, AZ)	1,236	91	2,245	168	C	D	17	3	No	1976	Wine wholesaler
65. Windamatic Systems (Fort Wayne)	1,234	91	1,699	127	B	D	18	14	No	1971	Mfr. winding machines for electric motors

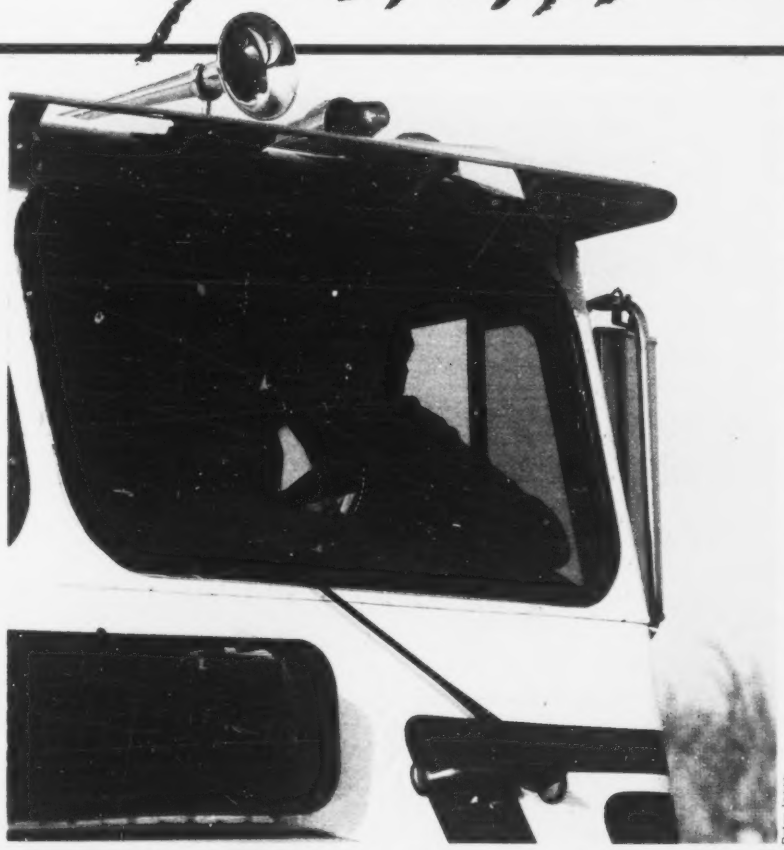
*After-tax net income as a percent of sales: A=16% or more; B=6%-15%; C=.1%-5%; D=loss.

privately held companies in the U.S.

Company (by rank)	Sales Growth 1976-80 Percent increase	Compound annual rate	'80 Sales ($000)	'76 Sales ($000)	Profit range* '80	'76	No. of employees '80	'76	Acquisitions '76-'80	Date founded	Business description
66. John Wolcott Associates (Culver City, CA)	1,233%	91%	$ 4,000	$ 300	A	A	25	3	No	1975	Interior designer
67. Sun Hill Industries (Stamford, CT)	1,233	91	2,000	150	A	A	20	3	No	1974	Mfr. clocks & egg decorating kits for mail order companies
68. Industrial Fabricators (Jackson, TN)	1,225	91	4,186	316	B	D	78	7	Yes	1976	Industrial wiping cloth converter
69. Polk Audio (Baltimore)	1,225	91	3,624	274	B	B	110	12	No	1972	Mfr. loudspeakers
70. Coastal Compression Service (New Iberia, LA)	1,214	90	2,269	173	A	B	32	5	No	1970	Services to petroleum industry
71. Ad-Tek Engineering Services (Irvine, CA)	1,210	90	2,561	196	C	C	55	8	No	1974	Technical temporary personnel
72. McCormack & Dodge (Needham Heights, MA)	1,208	90	15,700	1,200	B	B	251	29	No	1969	Computer software-financial applications
73. Career Blazers Personnel Services (New York)	1,190	90	7,804	605	B	C	105	15	No	1949	Personnel employment services
74. New England Rare Coin Galleries (Boston)	1,187	89	48,997	3,807	B	C	85	15	No	1969	Rare coin sales
75. Techexport (Waltham, MA)	1,169	89	7,589	598	B	C	54	7	No	1971	Distributor of computer products
76. Denver Spectrum (Denver)	1,133	87	1,786	145	B	B	40	4	No	1976	Color separator for printing/graphics
77. Double "L" Mfg. (American Falls, ID)	1,128	87	1,922	157	B	B	45	5	No	1976	Mfr. potato handling equipment
78. John Galt (Hyattsville, MD)	1,125	87	11,696	954	A	A	11	7	No	1974	Fuel oil dealer (retail)
79. Apollo Bedding (Cleveland)	1,122	87	1,362	111	A	C	30	10	No	1972	Mfr. mattresses & household linens
80. Atlas Energy Systems (South El Monte, CA)	1,121	87	2,182	179	B	C	30	4	No	1976	Mfr. motor-generator power equipment
81. Decor (Fairfield, AL)	1,116	87	15,136	1,245	C	C	88	9	No	1971	Mfr. paneling for mobile homes
82. Progressive Graphics (Oregon, IL)	1,100	86	15,000	1,250	B	B	390	60	Yes	1972	Full-service printer
83. Ava Care (Dallas)	1,100	86	12,529	1,044	D	B	94	18	Yes	1974	Direct sales of cosmetics, vitamins
84. Century Data Systems (Raleigh, NC)	1,100	86	4,500	375	B	C	75	8	No	1975	Sales/service of cash registers, minicomputers
85. Service Industries of America (Tucson)	1,098	86	5,949	497	B	C	245	10	No	1976	Industrial maintenance supplies
86. Centec (Reston, VA)	1,089	86	3,589	302	B	C	80	14	Yes	1975	Computerized process engineering
87. Medevac (San Diego)	1,084	85	9,512	804	C	B	337	40	Yes	1966	Emergency medical services
88. Dallas-Ft. Worth Distributing (Dallas)	1,081	85	3,615	306	C	B	35	3	No	1976	Furniture wholesaler; waterbeds
89. Acsis (New York)	1,080	85	1,770	150	B	C	40	15	No	1975	Computer services
90. K.S. Inc. (St. Louis Park, MN)	1,070	85	3,100	265	B	C	90	8	Yes	1975	Sales/service of furnishings
91. Selective Personnel (East Brunswick, NJ)	1,063	85	2,325	200	A	A	400	6	No	1974	Personnel agency
92. Charles Schwab (San Francisco)	1,058	84	27,800	2,400	B	C	510	80	No	1971	Discount brokerage firm
93. Sterling Oil & Chemical (Southfield, MI)	1,037	84	6,622	582	C	C	1	1	No	1976	Mfr. industrial lubricants
94. American Awning & Patio (Denver)	1,025	83	2,050	182	C	C	52	29	Yes	1969	Retailer of home improvement products
95. Brock International Security (Middlebury, VT)	1,023	83	4,542	404	C	C	320	55	No	1970	Security & investigative services
96. Raven Systems & Research (Washington, DC)	1,021	83	7,577	676	B	B	385	127	No	1971	Computer & data management services
97. Input (Palo Alto)	1,004	82	3,280	297	D	B	37	8	No	1974	Management consulting
98. B.W. Levy Security Consultants (Chicago)	991	82	1,200	110	B	A	75	6	No	1975	Public safety & security consulting
99. Reactive Metals & Alloys (West Pittsburg, PA)	983	81	20,651	1,908	B	C	200	30	Yes	1975	Mfr. metallurgical additives & compounds
100. Phone Directories (Provo)	972	81	1,538	143	A	B	12	7	No	1973	Publisher of independent phone books

*After-tax net income as a percent of sales: A=16% or more; B=6%-15%; C=.1%-5%; D=loss.

The INC. Private 100



Peter Jones

#1, STOOPS EXPRESS—9,372%

Jeff Stoops got started in the trucking business when he realized that truckers were making $10,000 a year more than he was as a junior high school teacher. Ten years later, Stoops Express operates 137 trucks, and the firm's 34-year-old president and sole owner predicts that his company will bring in $15 million this year.

Hidden behind cornfields at the junction of I-69 and State Road 67 near the tiny town of Daleville, Ind., Stoops Express doesn't look like a transcontinental transportation company. But Jeff Stoops didn't set out to build a trucking empire.

As a student at Ball State University, Stoops first drove trucks in the summer for a grain elevator in Emporia, Ind. He graduated in 1969 and got a job teaching social studies and coaching football and basketball at a small junior high school, but he kept driving during summer vacations.

"In 1971, I looked around and saw truck drivers making $18,000 a year while teachers were making $8,100," Stoops recalls. He decided to quit teaching to drive a truck, but his father talked him out of it. Instead, Robert Stoops, a Buick and Pontiac dealer in Elwood, Ind., helped his son finance the purchase of a tractor-trailer, which he leased to other trucking firms. By 1975, Stoops had a fleet of 12 trucks that were hauling material for the auto and steel industries.

That was the year, however, that the automobile recession hit the Midwest's economy, idling half of Stoops's rigs. Ask Stoops about the recession and he just smiles. "That was the best thing that ever happened to us," he says. "If it weren't for the auto recession, we'd still be hauling steel around the Midwest—which means not doing much business."

Stoops had the inspiration to buy refrigerated trailers and to establish a series of routes to California, shipping manufactured parts and retail goods for *Fortune* 500 companies and backhauling fresh fruits and vegetables to supermarket chains in the Midwest.

"That recession taught me a lesson," he says. "One thing that moves all the time is food."

Stoops Express was founded in 1976 when Stoops decided to quit leasing out his trucks. He applied for and received the Interstate Commerce Commission licenses needed to operate on his own. He went to the ICC with the backing of his major Midwest-based customers who, he says, "feel more comfortable dealing with a midwestern trucker." He repays their support by providing financial statements "to prove that we're not trying to hit home runs off of them."

Dressed in a V-neck sweater and casual slacks, Stoops still looks more like a junior-high coach than a truck driver or a corporate executive. He last drove an 18-wheeler in the spring when he and his son Matt "stole the show" on show-and-tell day at Matt's nursery school. Now he spends most of his 10-hour days in the office of Stoops Express, supervising 38 employees and 150 drivers.

He's also working to protect his company from the eventual slump he expects in long-haul trucking. Because of fuel costs and deregulation, he believes that truckers will have to give up routes of 1,000 miles or more to railroads, whose "piggyback" services offer greater efficiency and flexibility.

"But I'm not going to sit back and let the railroads take away my business," says Stoops. He's established a promising short route to Chicago where many trains pick up trailers to piggyback to California.

Six who made the list

Andrée Abecassis

#31, COTTON MACHINERY CO.—2,355%

Back in 1976, FMC Corp., a $3.3-billion conglomerate, was trying to get rid of a monster it had created. The monster was a cotton module builder, a giant machine that compacts cotton into bales 32 feet long by 7 feet high by 8 feet wide.

Jeff Johnson was manager of FMC's new-business venture group and one of the few people who believed in the machine. When he learned that FMC was going to scrap plans for building it, he volunteered to try to sell the idea to other companies. When that didn't work, he decided to buy it himself. He and another FMC colleague set up shop as Cotton Machinery Co. (CMC) in Livermore, Calif. (Nowadays, 75% to 80% of the cotton grown in the United States comes from California, Arizona, and Texas.)

"When we started in 1976," says the 42-year-old Johnson, "we believed we had a viable product. But we had no idea it would be this viable. Sales this year will top $11 million."

CMC's success, says Johnson, stems in part from manufacturing equipment that helps farmers store and transport large quantities of cotton at low cost. But it also stems from Johnson's insistence on keeping the company trim and flexible. He maintains a minimal inventory, farming out almost all parts manufacturing, and he cuts his work force during the winter and spring, when almost no manufacturing takes place.

Long lead times for purchasing and fabrication force the company to plan the production of their machines a full year in advance. "It's always tense, planning a year ahead, knowing you can't turn back," says Johnson. "But like a fire horse going to the fire, you get used to it, and, fortunately, our bank believes in our projections."

#49, W-B PUMP & SUPPLY CO.—1,451%

"I can walk down the street in Casper, Wyoming," says Texan Ronald Hess, "and I'm bound to run into somebody I know. The oil business is really a relatively small circle of people."

Hess's familiarity with the industry and its people has helped him build W-B Pump & Supply Co. into a $27-million business. The company started in 1971 as a two-man operation in Pampa, Tex., selling oil-field pumps.

W-B's success has brought him a lot of offers from larger firms wanting him to sell out. But Hess says that after starting with practically nothing, he intends to hold on to what he built.

Joe Abell

"This company still has a long way to go," he says. "I figure if it would be all that good a deal for the conglomerates, then it's a good deal for me."

Hess, 38, was a manufacturer's representative for Dover Corp., selling oil-field pumps, when he bought W-B in 1971. He was born 12 miles from Pampa in Lefors, where his father worked for Texaco. "I was raised in oil-field camps on company leases," Hess says. "All I've ever known is the oil patch."

He put up his house and his car for a loan to buy the business, whose sales were running at $4,000 to $8,000 a month. Today, W-B sells much more than pumps. Headquartered in the Texas Panhandle, with six retail stores and two sales offices in Texas, Colorado, Kansas, and Oklahoma, W-B retails field supplies to the oil and gas industry.

With sales expected to hit $50 million next year, Hess says, "I've always had more growth than anything else." And although he's not going to sell out, he says a stock offering is in W-B's future, probably next year.

#69, POLK AUDIO INC.—1,225%

A year out of college, George M. Klopfer and Matthew Polk were building large public address systems for fiddlers' conventions. Now, a decade later, Polk Audio Inc. in Baltimore is scoring heavily in hi-fi stereo speaker markets against big league companies like Sony, Pioneer, and Technics.

Penelope Breese/Gamma Liaison

The two started out with a used bench saw they bought for $25, setting up shop as roommates in a tiny cot-

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tage. "We didn't know anything about anything," Polk says, but a Washington, D.C., retailer found they at least knew how to make quality speakers and he contracted them to make private-label speakers for his store.

"We were basically brokering the systems until the deal fell through several months later," says Klopfer.

Stuck with an inventory they thought was already sold, Klopfer, Polk, and new roommate Sandy Gross were forced to redesign their product and go out and market it themselves. Their first model, the Polk Model 9, got some encouraging attention.

The trio moved into a large old Victorian house in Govans, Md., and got serious about engineering their next model. "We adapted a lot of good features from European audio components into features acceptable to American consumers," says Polk, 32, vice-president for engineering.

Orders began to come in, but the new company was cash-poor. The trio managed to land a $75,000 Small Business Administration loan in 1976 to finance production and the next year, their business quadrupled to over $1 million. Two more SBA loans followed.

Today, Polk Audio has 110 employees and produces 1,000 speakers a week on an assembly line that would make Henry Ford proud. And it didn't hurt business when Klopfer, the company's 31-year-old president, was named Maryland's Small Businessman of the Year in 1978.

#77, DOUBLE "L" MANUFACTURING INC.—1,124%

As a professor of agricultural engineering at the University of Idaho in Moscow, Lynn F. Johnson gained fame for his knowledge about potatoes and how they should be handled—in a word, gently.

Five years ago, a potato farmer named Leland Clinger, from near Pocatello, convinced Johnson that he could do more good for agriculture by getting out of his ivory tower and designing the equipment that would help keep potatoes unbruised. Lynn and Leland (who is no longer with the company) incorporated in 1976 under the name Double "L" Mfg. Inc. and started marketing Johnson's first prototype system.

Johnson's equipment, for which many of his buyers are willing to pay 100% in advance, helps get the potatoes from the field to the storage buildings on self-unloading truck beds. (That's a plus for the truck drivers, 70% of whom are housewives who sign up for the one-month harvesting season.) Once at the storage building, other pieces of Double "L" equipment sort the potatoes into different sizes, and then pile them, neatly and gently, so they can be picked up for the last leg of their trip to the market.

"Although we started up in the worst possible economy," says Johnson, "the prototype sold before it was completed, and it's been that easy ever since."

Sales in 1980 were $2 million. With orders coming in a year or more in advance, Johnson predicts that Double "L," based in American Falls in southern Idaho, will increase its production 2½ times within the next few years. But Johnson sees one problem: The company needs to move from custom design work into standardized production as soon as possible. Johnson is considering going public—or "maybe finding another rich partner."

Andrew Rafkind

Rhoda Baer

#96, RAVEN SYSTEMS & RESEARCH INC.—1,021%

Last year, one of the security guards at Raven Systems & Research Inc. came upstairs with $2,000 to find out if he could invest it in the company. He had to be turned away because Ray Mott still owns it 100%.

Mott moved to Washington, D.C., in 1960 and worked as a waiter and a model before joining a data processing firm. By 1971, he had become a general manager of the firm, but left to start Raven, his own information processing firm.

"I lost 72 hours of sleep trying to decide if I was doing the right thing," he recalls. "I had none of the tickets, such as a formal education, but I figured I had nothing to lose. I could always go back to waiting tables."

That probably won't be necessary. The company last year grossed $7.5 million.

Mott, 42, is quick to point out that he owes much of his success to the government—85% of his business is government contracts, many of which have come through the Small Business Administration's 8(a) program, which sets aside contracts for minority businesses.

Raven's biggest jump in sales came in 1979 when it won a $4-million contract from the Environmental Protection Agency to process confidential data from pesticide firms on the chemicals used in their products. To handle the project, Raven had to add 150 new employees to its staff of 112.

But working for the government also has its frustrating side: "Some of our contracts got blown out of the water this year, because of Reagan's budget cuts," says Mott. That has triggered his desire to cut some of the apron strings to government by raising private sector contracts from 15% to 50% of the total.

And someday soon, he says, he also plans to have a different answer for the security guard.

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THE MAGAZINE FOR GROWING COMPANIES

JANUARY 1982
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Inc.

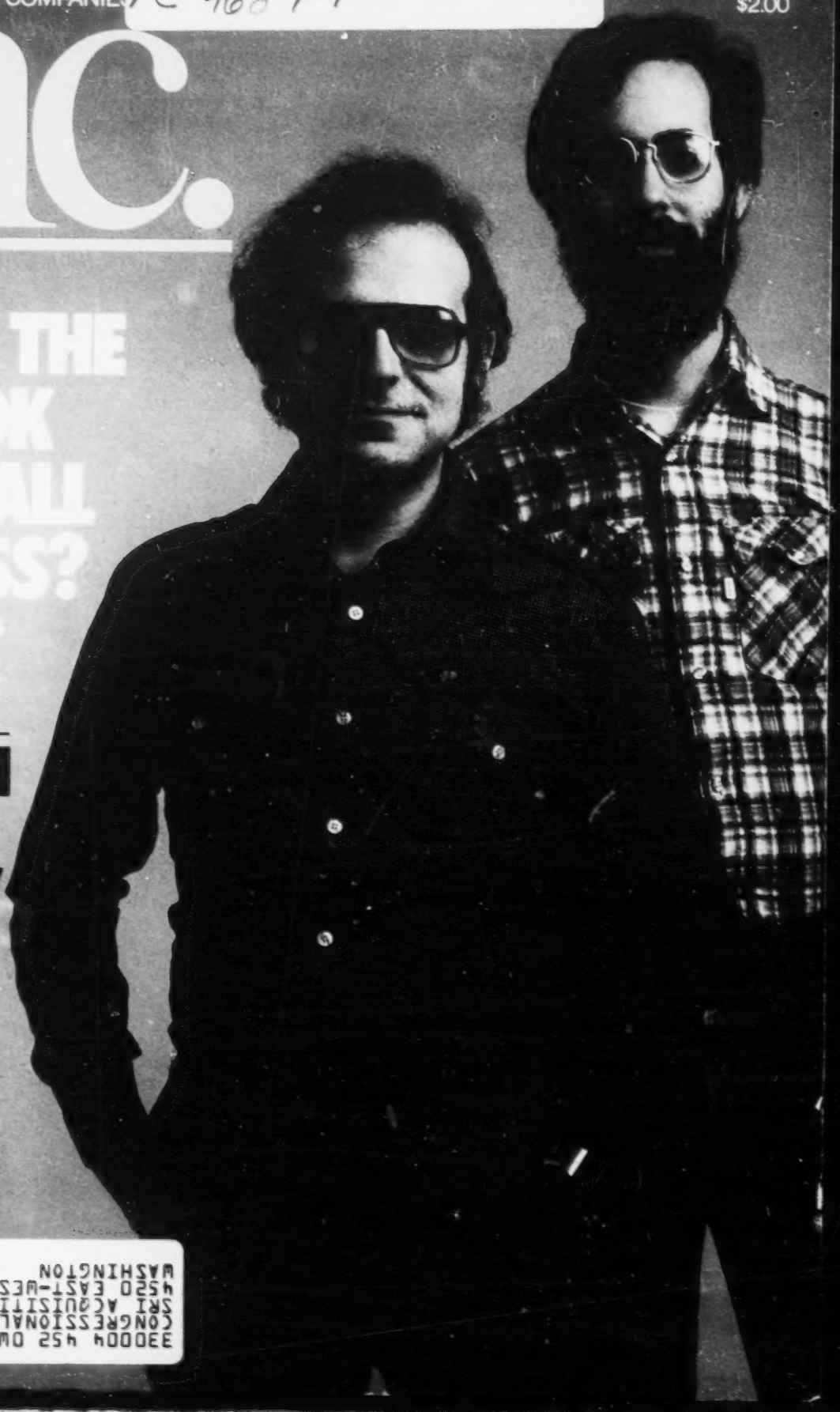
The Year Ahead

WHAT'S THE OUTLOOK FOR SMALL BUSINESS?

Inc. asked hundreds of businesspeople what they think.

THE BIRTH OF A NEW INDUSTRY

Bob Frankston and Dan Bricklin of Software Arts Inc.



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Cover photo
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Economic Outlook

WHAT'S GOING TO HAPPEN IN '82?

INC. asked hundreds of businesspeople what they think this year will be like.

It can be lonely running a small business. There's nobody to tell you how you're really doing. Are sales down because of your own mistakes, or because the economy is in a tailspin? Are profits up because you're smart, or because you're lucky? What should you do about it now?

Economic news and economists' forecasts are only marginally relevant to any specific firm. Currently, for example, the seers are debating whether we're in a recession. Some businesses are, some aren't. So much depends on your customers, your competitors, your suppliers. How are *they* doing? What are *their* plans?

Talking to people, in fact, is how most small business managers formulate their own economic outlook. When they ask "How's business?" they're not exchanging pleasantries. They really want to know.

This article looks at the year ahead the way every business owner would like to: by talking to hundreds of other businesspeople.

INC. approached the 1982 outlook in two ways. First, we convened three forums of about 20 small businessmen each, along with a sprinkling of economists, bankers, and accountants who specialize in small business. All are experienced, active small business leaders in their communities or industries. These groups met in Phoenix, Chicago, and Boston this past October and November to ask each other "How's business?" A stenographer recorded their conversations. We have excerpted highlights

Illustration: © Jim Kingston 1981

from the forums on the following pages.

INC. also sent a questionnaire to a sample of the magazine's subscribers. Approximately 2,000 small businesspeople gave us detailed answers to questions about their business growth, their biggest worries, and their opinions about the economy. More than three-fourths of those answering were owners or top executives of small businesses, and almost all the rest were in charge of finance, marketing, sales, or production. About half of the companies have annual sales up to $1 million; the other half range up to about $50 million. All the charts and figures in the article are compiled from this survey.

The article is divided into six sections: credit, business growth, the Reagan Administration's policies, inflation, labor, and regions and industries. Each section begins with a summary of the survey results pertaining to that topic; the rest consists of verbatim remarks by our meeting participants and subscribers.

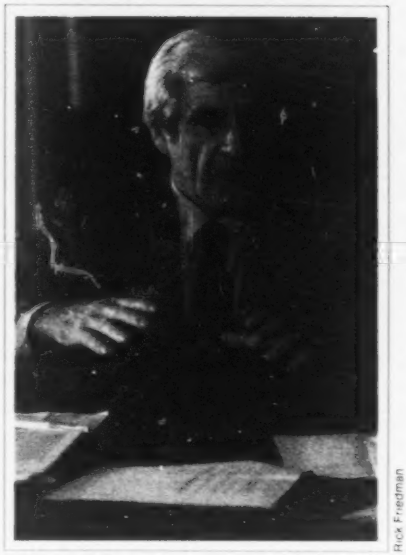
Regard this article as a visit with your business associates and friends. Listen for trends the way you do in your daily talks with colleagues and customers. Take note when people contradict one another. And let us know what you think.

Table 1: Most important economic factors to small business in 1982

Factor	Weighted score
1. Interest rates	192
2. Growth of the economy	48
3. Availability of long-term credit	40
3. Ability to pass on price increases	40
5. Availability of short-term credit	38
6. Wage costs	29
7. Energy costs	25
8. Raw materials costs	22
9. Quality of labor	21
10. Federal taxes	19
11. Domestic competition	18
12. Regulatory environment	15
13. Federal spending	14
14. Availability of equity capital	12
15. Availability of labor	8
16. Foreign competition	8
17. State/local taxes	8
18. Government aid for small business	7
19. State/local spending	6
20. Stock and bond markets	5
21. Mergers and takeovers	5
22. Supply of energy	4
23. Union activity	4
24. Foreign exchange rates	4

Interest rates topped this list on the following vote by INC.'s sample of subscribers: 53% chose it as their most important concern in 1982, 12% chose it as second most important, 8% chose it third, and the remaining 27% didn't put it among their three major worries. Its score of 192 points comes from giving a weight of 3 to the percentage of times it was listed first, 2 to the times listed second, and 1 to the times listed third. The highest possible score that any item could receive would have been 300 (3 x 100%)—if every respondent had listed that as top concern.

Interest rates obviously overwhelmed all other items, garnering four times the score of the runner-up—growth of the economy—which received this vote: 7% gave it first place, 9% second place, and 10% third place, for a weighted score of 48.



Rick Friedman

Robert E. Carr, Sr., president, SEACOR, Cherry Hill, N.J.

CREDIT

Interest rates will dominate the economic news in 1982 as they did last year. High borrowing costs are wreaking such havoc with income statements that other business worries pale by comparison. In INC.'s subscriber poll, interest rates were voted the major concern for 1982 by a four-to-one margin over the next item on the list (see table 1). In a separate question, about two-thirds of those responding said that tight monetary policy will significantly hurt their company.

To the smallest firms answering our survey, tight credit means that money will be not only expensive, but unavailable at any price. While survey respondents as a whole voted *availability of short-term credit* as their fifth biggest worry, giving it a weighted score of 38 points out of a possible 300 (see table 1 for an explanation of these scores), smaller companies—those with annual sales of less than $1 million—gave it second place, or 48 points. By contrast, companies with sales of $10 million or more placed credit availability far down on their list, giving it a score of only 19.

What's all the more troublesome, many companies need more financing at the very time that financing is hardest to get. Large and small customers are stretching out their payables, forcing suppliers to finance their receivables for longer periods.

Though short-term credit is expensive and sometimes hard to obtain, long-term credit has come close to disappearing. Availability of long-term funds tied for third place, with a score of 40 on our subscribers' list of concerns for 1982, with firms of all sizes in close agreement about its importance.

Curiously, equity capital—a possible replacement for long-term debt in some cases—ranked low on the list of economic concerns. Smaller companies gave it the most mention, for a weighted score of 14; the overall score was 12; and for companies over $10 million in sales, only 8.

Venture capitalist Stanley Golder, general partner of Golder, Thoma & Co., Chicago, says that capital is available now for products oriented toward costs savings and productivity enhancement. Demand for these will be "less sensitive, if not insensitive to interest rates in growth years," he says. One important source may become institutional investors, which traditionally have ignored smaller companies.

There's still a long way to go, though, before most of that money would be available to small businesses. Insurance company investments are closely watched by state regulatory bodies, and private pension funds by federal "prudent man" rules. Most of these limit investments to larger, publicly held companies. Many of these laws would have to be changed before the funds could invest in smaller businesses.

Small business owners are looking with trepidation toward credit markets in 1982. Their only consolation may be that the year will hold fewer surprises than 1981. Just about all economists agree that interest rates will stay in the double-digit range for some time to come.

Subscriber. "Our money, if we sold our assets, would be better invested in a money market fund. I see no way of earning 16%—we earn only half of that."

Economist. "Everybody thinks that when the Treasury continues to finance 10 years out at high interest rates with no recall on the bonds, that means it expects inflation. The markets are not ignoring it. They look at Social Security deficit potentials, and they say it could mean the Treasury knows that it is going to be borrowing $200 billion in five years."—*William C. Dunkelberg, professor of economics at Purdue University, Lafayette, Ind., and economic consultant to the National Federation of Independent Business.*

Banker. "It looks to us like the continuation of perilous times in financing for small business. Even if interest rates come down substantially, the funding cost to financial institutions is going to continue to go up. The financial institutions are being changed by the bank deregulation act of 1980. As each month goes by, they have to finance an increasing part of their pool of funds at current market rates, driving their overall cost of funds up."—*B. Paul Jones, senior vice-president, Valley National Bank of Phoenix.*

Government economist. "As long as the Federal Reserve Bank has this federal deficit to fund, it either has to print money or dominate the debt markets, pushing up interest rates. I see no break in interest rates until we get a more nearly balanced budget.

"Why were we able to run a federal deficit at a higher percentage of gross national product in the 1960s, and not able to do it today? Because then we were able to export our inflation. Dollars would flow out of the country for imports or for investment abroad, and they would pile up in foreign central banks. We are no longer able to do that because foreign central banks don't want to hold any more dollars. I think that Chairman Volcker of the Federal Reserve sees this more clearly than the average citizen. He had no choice but to push up interest rates."—*William B. Whiston, director, Office of Economic Research for the U.S. Small Business Administration.*

Trucking company president. "We have almost doubled the number of people working on accounts receivable. Some very, very large companies back East are investing their money rather than paying their bills. We have called them and said, 'If you don't get your account paid in 10 days, we will cease service.' In three or four cases we have done that, and I'm talking about companies in the top 500. In every case, the company has come back to us and agreed to meet terms within the normal 20 or 25 days.

"These companies are very substantial. They just can get more investing their money. I think, whenever possible, they are taking it out on the smaller people they deal with.

"I have been in this business about 28 years. Before now, the swings in revenue were never more than 20% or 22% between the best day in a month and the worst day. Now that swing is up to 35%.

"I believe the reason is that people are ordering late and the shipping is being done at the last minute. At the end of each quarter, we're seeing a lot of orders. I think the sole purpose of that is to make that quarter's balance sheet or P&L statement look a little bit better, probably for our banker friends."—*John A. Pifer, president, Best-Way Transportation, Phoenix, a common carrier serving the Southwest, with about $20 million in sales in 1981 and 400 employees.*

Subscriber. "Small companies must rely on debt financing for major capital projects. When they have to compete for people's savings with the U.S. Treasury, they lose."

Investment banker. "I think that many businessmen are realizing that if they are going to get money, they are going to have to give up some equity. More and more are coming around to that point of view.—*E. David Collidge III, partner and manager of corporate finance dept., William Blair & Co., Chicago.*

Banker. "We'll be taking a much harder look at companies' credit. I'm going to be very, very selective as to who's going to get funds. The corporate sector of the economy is highly illiquid, and it's not going to get liquid soon. It's going to take a long time."—*Nathan C. Collins, senior vice-president, Valley National Bank of Arizona.*

Glenn Short

Left, Bernard Z. Lee, CPA, managing partner, Seidman & Seidman, Houston; right, John A. Pifer, president, Best-Way Transportation, Phoenix.

Banker. "Receivables are lengthening on a lot of our customers. It is taking more time to work with those firms and to provide some management assistance. We are quite concerned that a number of our small business accounts can't withstand interest rates that never go down. I think they can weather the first year or two years or three, but when there's no rainbow in sight, it's going to have a definite effect—more mergers, sellouts, bankruptcies, liquidations."—*Victor H. Frank, executive vice-president, Thunderbird Bank of Phoenix.*

Manufacturing company president. "What killed us last year was not the level of interest rates—it was the way they went way beyond what we expected. We announced our programs, but we didn't anticipate interest costs in setting our prices. Next year we will factor that into our prices—because we now assume that rates are going to stay high.

"Our back orders for this year are the best ever, but our customers are slower in payment than they have ever been. We are worried as much about what interest costs will do to our customers as what they will do to us. A year ago, we had our largest single bad-debt writeoff ever—somebody who had been a good customer for many years couldn't make it."—*David Ransburg, president, L.R. Nelson Corp. in Peoria, Ill., a manufacturer of lawn sprinklers and garden products, with 400 employees.*

Engineering company president. "We will probably have a 25% sales increase in 1982, but the profit is going to be way off. It takes every bit of imagination you can muster today to make collections work. You have to start looking at the total system of invoicing and recovery.

"Financing, production, and sales are a three-legged stool. What we're seeing is that top management of small companies are all concentrating on financing—neglecting, perhaps, production and the marketplace. We're spending a lot more time this year on the doggone cash problem than ever before."—*Robert E. Carr, Sr., president, Systems Engineering Associates Corp. (SEACOR), Cherry Hill, N.J., naval architects and marine engineers, with $14 million in sales and 450 employees.*

Accountant. "About two years ago, small companies became aware of the need to help their working capital for their cash flow. They started with tightening receivables. Then about six months later they went to inventories. About a year ago, they started on an austerity program in spending.

"Now we've gone through all available means, and we have run out. Small business that we see has run out of means to pare back and survive."—*William Barth, director of small business practice for Arthur Andersen & Co., a big-8 accounting firm based in Chicago.*

Automobile dealer. "Interest rates are certainly killing the retail end of our business. Even though rates have slowly started down, there are now fears for the future on the part of the consumer. They are afraid to make large purchases."—*Shepard Lee, president, Lee Management Co., Auburn, Maine, with five dealerships, annual sales of about $25 million, and 200 employees.*

Economist. "People in the building industry say that the magic interest rate might be about 13% or 14%. If mortgage rates come down to that, there is a tremendous unrealized demand out there. The post-war baby boom babies are coming of age right now, and the demand for housing is going to be substantial.

"Thus, I think there is some sort of built-in floor to the economy when interest rates start to come down. The two major industries ought to rebound fairly quickly: automobiles, when the short-term rates come down, and housing, when long-term rates come down. The economy may come down fairly sharply, but may recover fairly quickly in the latter part of 1982."—*John E. Buehler, professor of economics, University of Arizona, Tucson.*

BUSINESS GROWTH

While the economy this year promises to resemble that of 1981, small business investment may take a dive from last year's level. The INC. survey shows that among firms with less than $1 million in sales, 30% made a significant modernization, capital investment, or improvement in 1981; given the same circumstances, again, about one-third fewer— only 21%— say they will do so this year. Among larger firms, the figure also drops by about a third, from 41% in 1981 to 25% in 1982 (see chart 1).

Many small business managers, though, exhibit a streak of optimism. This shows up in growth rate estimates for sales, profits, and employment (see chart 2). Most of them predict a decided upturn this year after 1981's dive.

Why the discrepancy between these optimistic predictions and the pessimistic ones about investment? The investment question on our survey told respondents to assume 1982 would be a rerun of the past year; the growth questions did not. Free to make their own assumptions, small business managers look on the bright side of things.

Smaller companies seem to foresee a stronger uptick in 1982 than do larger ones. Do they know something larger companies don't?

Chart 1: Small business spending

QUESTION: Has your firm made a significant modernization, capital investment, or improvement in 1981? Do you think it will do so in 1982, if the economy continues like 1981?

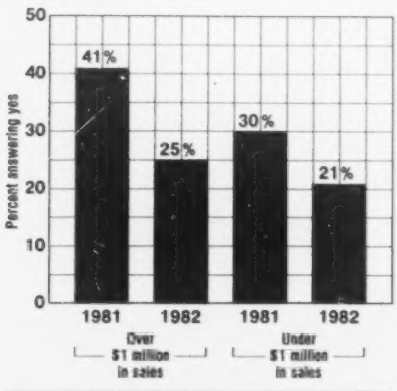
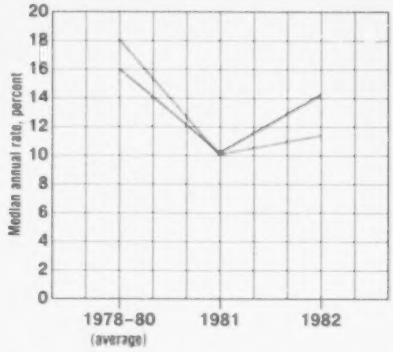


Chart 2: Small business growth

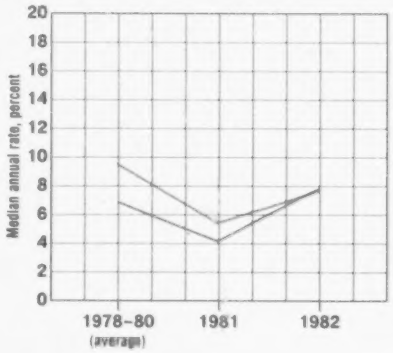
Sales

QUESTION: What is your firm's sales growth for: 1978–80 (average annual rate); 1981; your estimated rate for 1982?



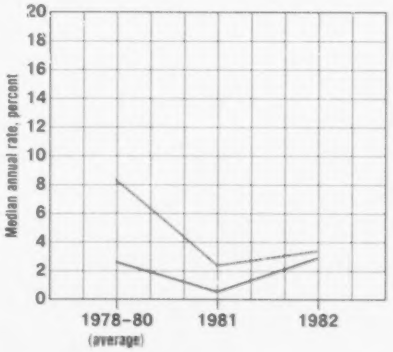
Profits

QUESTION: What is your firm's after-tax profits growth for: 1978–80 (average annual rate); 1981; your estimated rate for 1982?



Employment

QUESTION: What is your firm's employment growth for: 1978–80 (average annual rate); 1981; your estimated rate for 1982?



Banker. "A lot of small businesspeople are pretty well informed about the economy, but they don't believe what's being said. They have a tendency to be optimistic—as an entrepreneur just starting out might be. They are hesitant to, say, cut back their production or cancel orders, because they feel it might only be temporary and they don't want to be left out in the cold."—*Victor H. Frank, executive vice-president, Thunderbird Bank of Phoenix.*

Richard Marin

Mel Boldt, president, BMI Inc., Des Plaines, Ill.

Manufacturing company president. "Business is not very good right now. It's a time to really get the equipment in shape, get the organization built a little better, and get a lot of training done. That's the way we look at it. Long-term, we are very optimistic."—*Frank Labriola, president, Pimalco Inc., an aluminum products manufacturer in Chandler, Ariz., with sales of $12 million and 100 employees.*

Construction materials executive. "We are looking right now at nine tough months ahead of us. We do plan to spend some money in spite of the down nature of housing, principally because we think that the demand for housing may flatten out. We are going to have to become more productive, and we are planning to spend more money in our three lumber mills to increase productivity."—*Richard A. Fletcher, vice-president of finance, Kaibab Industries of Phoenix, a lumber manufacturer and building materials distributor.*

Accountant. "We have seen a lot of companies in the last couple of years that have produced no bottom line, especially in 1981. A lot of them have forgone expanding. They are trying to hold on to their cash flow and just reinvest it in doing the day-to-day operations of the business."—*Norman W. Nagel, principal, Ostrow Reisin Berk & Abrams Ltd., Chicago, a 42-man accounting firm that deals exclusively with family-owned and privately held businesses.*

Economist. "For the long run, my group of economists forecasts real economic growth averaging 2.9% over the next five years. That would have to mean that 1983, 1984, and 1985 will be better than 1981 and 1982, which will average under 2%. They see a somewhat better growth rate for the last half of the 1980s."—*Robert J. Eggert, president and chief economist,*

Eggert Economic Enterprises Inc., Sedona, Ariz., and editor of Blue Chip Economic Indicators, *a newsletter that summarizes the forecasts of more than 40 leading economists.*

Manufacturing company president. "We are going through a period of weeding out of the weak, and I think this is good. There is a tremendous emphasis on quality. This means we all have to increase inspection equipment and automation equipment. It's a more capital-intensive business to maintain the types of quality standards we need to meet the world market.

"This weeding out is going to be very traumatic. On the other hand, many small businesses in this field don't operate to these same standards. It's very easy to get in by cutting prices, feeding your customers junk, and giving your product a bad name. We have to upgrade productivity and quality as a result of this shakeout.

"The one problem we are having is profitability. Our sales have been growing, but we're hurt in New England by energy, costs of government, and pressure on the small business market as a result of pricing. Our region is under attack from the Midwest production surplus that has been freed up by Detroit. I think it will continue to be a buyer's market."—*William B. Anderson, president, Matrix Inc. of East Providence, R.I., manufacturer of custom plastic components for the electrical transmission industry, with about $5 million a year in sales and 65 employees.*

Manufacturing company president. "We have used this last year to acquire about four pieces of production equipment at prices that I couldn't believe. We paid $25,000 for a couple of presses and a couple of multi-slides. Three years ago, even used, it would have been twice that. We filled up the plant with equipment."—*Mel Boldt, president, BMI Inc., Des Plaines, Ill., a manufacturer of formed metal parts with about $1 million in sales and 15 employees.*

Computer software company president. "Our products are computer software for financial applications. All of our customers are large companies—the typical product that they buy from us costs close to $100,000, and might be part of a $500,000 project. So typically, it takes some time to make this spending decision; committees have to agree. When they get cautious, everybody gets cautious, and there is a slowdown in the decision making.

"But our principal product is a credit and accounts receivable system, the attractiveness of which is that it increases cash flow. Though we will be a little short of our forecasts, we expect final figures on 1981 to show 30% growth again. The software business is expected to grow at that rate for most of the 1980s."—*Douglas C. Jerger, president, Fortex Data Corp., Chicago, with about 60 employees and annual sales of about $6 million.*

Glenn Short

Gaye Conrad Kruglick, owner, Earl's Academy of Beauty, Mesa, Ariz.

GOVERNMENT POLICIES

Small businesses offer mixed reactions to Reaganomics. By and large, they say they're for it. But that hides an undercurrent of fear—fear that they'll be crushed in its path. This ambivalence is exhibited dramatically in INC.'s survey.

On the positive side, more than a third of our sample say the President's program will have a significant positive effect on their companies in 1982, versus only 11% who think the opposite (see chart 3). Larger companies in our sample—those over $10 million in sales—are even more favorably inclined toward it: Almost one-half of them see a significant positive effect, with only 7% seeing a negative one.

Perceptions of the Reagan program's benefits, though, apparently depend on how strong one's company is. Among companies that reported a significant modernization in 1981, 44% foresee a positive effect; among those who had to postpone modernization, only 26% do (see chart 3).

On the negative side, almost two-thirds of our respondents think that the President's program will help large companies more than small ones. Smaller companies are more likely to hold this opinion, though even among the larger firms in our sample—those over $10 million in sales—about half agree. No more than 4% of the companies in any group say the converse—that Reaganomics will help smaller firms more than larger ones. The remainder say either that it will affect all companies equally, or that they're not sure what effect it will have.

Has Reagan acquired the tag of big-business president? From this evidence, it seems the Reagan Administration has, at least, a public relations problem.

If you were one of President Reagan's advisers, what would you tell him to do about the economy? Small business's split personality regarding the Reagan program comes through in the replies to that question. Two conflicting themes tied for first place, standing head and shoulders above all others: "Stick to present course" and "Bring down interest rates." Each was mentioned by 26% of people offering advice.

The interest rate remark comes from companies of all sizes in about equal proportions. But those saying "continue on course" tend to be larger companies. Only 20% of those under $500,000 in sales say that, but the percentage rises with size, with 37% of the largest group, those above $50 million, telling Reagan to charge ahead. The smaller the company, it seems, the less pleased it is with Reaganomics.

Small business is loath to ask for special help, though. Government aid for small business receives a weighted score of only 7 points in the list of most important economic factors in 1982 (see table 1), putting it in 18th place. Even the smallest firms give it only 12 points, for 14th place on their list. Federal taxes, government regulation, and federal spending all rank higher.

By sizable majorities, small businesses agree that they'll be helped by the new depreciation rules, new investment credits, reduced capital gains taxes, and regulatory relief. But again, larger companies say so more strongly than small (see chart 4). That fact shows up another way: Companies under $1 million in sales give a considerably higher score in table 1 to federal taxes as a source of concern in 1982 than do those over $10 million: 23 points versus 11, for an overall average of 19.

Chart 3: Opinions of President's economic program

QUESTION: Based on your understanding of President Reagan's economic program, what effect do you think it will have on your company in 1982—significant positive, significant negative, little, or not sure?

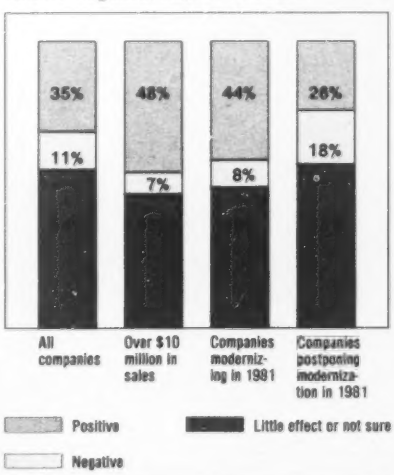


Chart 4: Who likes what about the Reagan program

QUESTION: Please indicate whether any of the following aspects of Reagan's program will significantly help your company.

	Percent answering yes	
	Companies up to $1 million in sales	Companies over $10 million in sales
New depreciation schedules	81%	91%
New investment tax credits	67	81
Reduced capital gains taxes	57	64
Regulatory relief	52	69
Increased defense spending	25	36

Distribution company president. "We were going to build a new building, but to do that in Chicago costs in excess of $40 a square foot. We were able to buy an older commercial structure for substantially less. Under Reagan's new tax package, any building over 40 years old that is purchased and substantially rehabilitated carries a 20% tax credit.

"Everything that we have looked at as far as urban revitalization has been economical. We expect to take advantage of any program that will help us survive in an urban setting. The problem is that not enough people, both small business and minority business, know enough about the programs and how to use them."—*Joseph A. Williams, president, Arrow Services Inc., Chicago, a commercial/industrial laundry and distributor of uniforms and paper products, with annual sales of about $2 million and 50 employees.*

Electronics company president. "One of the unfortunate things about the new Individual Retirement Account and Keough rules is that they will drive that money into a form that small business will never get near. No fund manager is going to put that money into small business—he can't do it with his investment restrictions. The money will go to build Section 8 housing, for oil deals, and into listed securities.

"In the near future, large businesses will benefit more from the new investment tax credit rules. Over the long term, smaller business might benefit as much. But it will take the average small businessman years to understand them, and even then only those with sophisticated advisers will come close to being able to take advantage of them."—*Oliver O. Ward, president, Germanium Power Devices Corp., Andover, Mass., a manufacturer of germanium semiconductors, with about $5 million in annual sales and 100 employees.*

Manufacturing company executive. "Our attorneys and accountants foresee any gain for us from the Economic Recovery Tax Act over the next two years being negated by increased fees on their part explaining to us what it's all about."—*Paul Reid, vice-president and general manager, Barnes & Jones, Newtonville, Mass., a manufacturer of steam traps and valves with $3 million in sales and 60 employees.*

Director of an industrial revenue bond agency. "Everyone has criticized industrial revenue bonds on the basis that they're being widely overused, abused, and that big companies are using them. A lot of commentators, including one on '60 Minutes,' have overlooked the requirement that we can't invest more than $10 million in a plant in a given municipality. That has limited their use primarily to small business. In Massachusetts, three-quarters of the companies we financed in 1981 have sales under $20 million, and half of them under $5 million. The Congressional Budget Office found that 93% of all such bonds nationally over the past two years went to companies not listed on any stock exchange, and therefore dependent on their local banks.

"A combination of the Treasury bureaucrats, who don't like tax-exempt financing at all, and the aura that the media have created, has resulted in an extremely difficult environment. The small business groups nationwide have not been sufficiently out front on this."—*Robert E. Patterson, executive director, Massachusetts Industrial Finance Agency, Boston.*

Subscriber. "The President should proceed slowly with change. The economic mess didn't happen overnight. Too rapid a cure is probably more harmful than allowing the deficit and inflation to slow gradually."

Manufacturing company executive. "My workers' compensation rates, unemployment insurance, and state business tax based on gross payroll together are pushing 20% of our payroll. These are three very substantial disincentives for hiring people. I have testified to the legislature that I could not understand how, in a state with the unemployment rate that Michigan has, they could possibly have laws that discourage hiring. And I haven't mentioned federal taxes at all—I'm just talking about state policies.

"Now we are making some headway because of the energy that was developed in the White House Conference on Small Business. We have substantially speeded up the organization of small business interests in Michigan.

"I preach the gospel that small business not only can run the state, but *should* run it, because it represents the most general interest group that you can possibly identify. We are laborers, consumers, and business all rolled into one. You can't name any other recognizable group with that breadth of perspective."—*R. Dale Moretz, vice-president, Mid-American Products Inc., Jackson, Mich., precision molders of thermoplastic materials, with about $2 million in sales and 36 employees.*

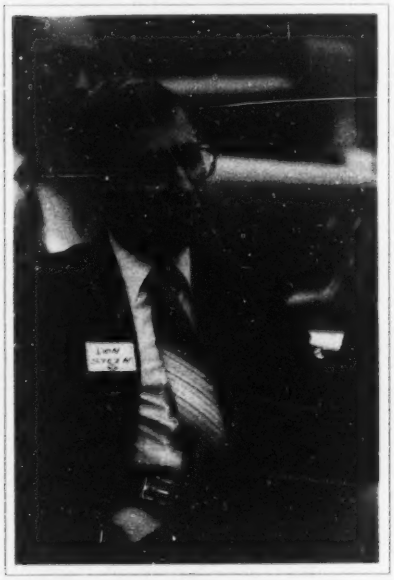
Accountant. "Until 1979, we had tax credits for investment in machines and for investment in people. We still give credits for investment in machines, many of which displace people. But we no longer give credits for investment in people, except for the Targeted Jobs Tax Credit, which hasn't amounted to much.

"We have been astonished to read of the companies vying to purchase an unnamed corporation that was going to require $5 billion to $6 billion of debt. How much of the interest on that debt would be deductible? Every cent. And yet, when interest rates were approximately 20%, a businessman wishing to borrow $50,000 at the bank to invest in his business would have had some of his interest disallowed."—*William Barth, director of small business practice for Arthur Andersen & Co., a big-8 accounting firm based in Chicago.*

Subscriber. "The government should eliminate tax breaks that are economically possible only to large corporations because of legal and accounting requirements. It should also eliminate taxes on a corporation's first $500,000 in profit. This could allow reinvestment and create jobs."

Subscriber. "We need a simple way to report the tax we owe. The average businessman can look at his checkbook, accounts payable and receivable, etc., and have a good idea of where he is financially. Yet we spend thousands of dollars each year for CPAs, computers, accounting, etc., just so we can defend ourselves against the Internal Revenue Service and various state tax people in the event of an audit."

Subscriber. "We are a *wee* company. Like thousands of companies, we're too small for everything but taxes."



Glenn Short

Don S. Stein, president, K-Tron International, Scottsdale, Ariz.

Rick Friedman

William B. Anderson, president, Matrix Inc., East Providence, R.I.

PRICES AND INFLATION

Inflation has been overshadowed as business enemy number one during the past year. But it still weighs heavily on the minds of small businesspeople. The *ability to pass price increases on to customers* follows close on the heels of interest rates and overall economic growth to tie for their third most important concern in 1982 (see table 1). Three more price issues—wage costs, energy costs, and raw materials costs—rank among the top concerns of small businesses.

Large firms mention the inflation problem more often than small ones—the weighted score for this item ranges from 49 points for the $50-million-plus sales group down to 36 points for the under $500,000 group. The reason is probably that large companies keep better track of their costs and understand more clearly how inflation filters down to their bottom line. Small companies are notoriously poor at this. Some drive their competitors crazy with unrealistically low prices, as several of our forum participants lamented.

Subscriber. "Inflation must be controlled to reduce interest rates. If that means delaying or reducing the tax cuts, I feel it should be done."

Subscriber. "The tight monetary policies of the Federal Reserve Board are encouraging inflation rather than stopping it. High interest rates mean high production costs, which are passed on to the consumers as higher prices."

Economist. "The reason that high interest rates hurt is the same reason that high energy costs hurt, and that increased labor taxes hurt: We cannot get them passed on, so bottom lines are getting squeezed.

"A lot of things are going to keep interest rates high, while all of a sudden inflation has really slowed down. When that happens, the price of what you sell doesn't go up as fast. Two years ago, when inflation was high, you could handle a 15% interest rate easily because you could cover the costs. When the rate of inflation goes down, interest costs fall right to the bottom line.

"But I think you have to put this in perspective. I called around to CPA firms to find out how big interest expense is, relative to lots of other expenses among small businesses. It's not very large—1% or 2% of sales on average. That's double what it was a year earlier—but if we are worried about bottom line relief or cash flow relief, then a reduction in labor costs of a couple of percent, whether from taxes or whatever, will give more relief than a halving of interest rates."—*William C. Dunkelberg, professor of economics at Purdue University, Lafayette, Ind.*

Distributor. "I have been fighting for a lot of years to upgrade the management of welding supply distributors. In the National Welding Supply Assn., I tried to get them to realize what their costs are.

"We realize what our costs are. That makes us a leader in pricing, which creates an umbrella for the people who don't realize what their costs are to come in. The overall effect is to depress what the realistic price should be for the product. Now, with the instability in the marketplace, the competitors are reducing our gross margin."—*Craig Hosterman, chairman, Arizona Welding Equipment Co., Phoenix.*

Manufacturing company president. "The most critical thing today to small businessmen is the fear of inflation. That's why we have grasped onto the President's plan. Yet, so quickly do we lose sight of our prime concern. All of a sudden everyone is in a hysteria about interest rates and will do anything to get them lower again. The inflation rate is coming down, and as long as it does, we have to put up with this."—*William B. Anderson, president, Matrix Inc., East Providence, R.I., manufacturer of custom plastic components for the electrical transmission industry, with about $5 million a year in sales and 65 employees.*

Trucking company president. "All our drivers know that when the interest rate fluctuates half of a percent, it costs us $30,000 a year. We pounded that figure into them. We post our P&L every month. Three other executives and I run an orientation on the P&L, safety, or something else, every week at every single plant.

"Our goal is to make every employee understand why we can't cut some rates. They come to us when they lose an account, and we don't just say, 'Somebody undercut our rates.' We take the time to sit down and show what this guy is doing, what turbulence we are going through in the industry.

"You can get almost any rate you want today in trucking. We take the position that we perform a premium service and will charge a rate that allows us to stay in business. You've got to price your product where you've got a profit, and a big element in that profit now is the interest rate you're paying."—*John A. Pifer, president, Best-Way Transportation, Phoenix, a common carrier serving the Southwest, with about $20 million in sales in 1981 and 400 employees.*

Economist. "In 1980, the consumer price index rose 13.5%. In 1981, it's about 10.4%. The consensus of my group of economists is that for 1982 we'll be down to 8.3%. That's real progress.

"For the long run, they are saying that the average inflation rate over the next five years will be 8%. That's not great, but it's not bad. It's a lot better than 13%."—*Robert J. Eggert, president and chief economist, Eggert Economic Enterprises Inc., Sedona, Ariz., and editor of a newsletter that summarizes the forecasts of more than 40 leading economists.*

Manufacturing company president. "You have to be optimistic that Reagan's policies are going to control inflation. We raise our prices a lot of times in anticipation of what the inflation rate is going to be next year. That just creates a spiral for everybody."—*Don S. Stein, president, K-Tron International, Scottsdale, Ariz., manufacturer of industrial scales, with $21 million in annual sales and 350 employees.*

Subscriber. "My company will probably cease doing business this year. Without the ability to plan for future investment and expansion, being in business is nothing more than a crapshoot. The economy must be allowed to rid itself of devastating inflation psychology, and if my company is one of the casualties, so be it.

"I believe President Reagan is on the right track, but I also sense his inability to make changes in direction when it is needed. He appears to view a change in direction as weakness. I would counsel

Glenn Short

Nathan C. Collins, senior vice-president, Valley National Bank of Arizona.

Richard Mann

R. Dale Moretz, vice-president, Mid-American Products Inc., Jackson, Mich.

him to never say never and to always review the past."

REGIONS AND INDUSTRIES

Conventional wisdom has it that the country's "Frostbelt" is bearing the brunt of the economic slowdown, while the "Sunbelt" hardly feels it. According to INC.'s subscriber survey, that theory can be refined. We divided the United States into four regions: Northeast, Midwest, South, and West. As chart 5 illustrates, small businesses in the chilly Northeast and the balmy South reported very similar growth rates for sales, profits, and employment. The other two regions score as expected: the booming West on top, the industrial and agricultural Midwest in the cellar.

Since both sales and profits growth are distorted by inflation, the employment lines in chart 5 may afford the most accurate picture of small business's performance in this area. Small firms in western states reported median annual employment growth at a spectacular 7.6% during 1978–80. Or, compounded annually, employment grew 25% over the period. Median, of course, means that half of the firms exceeded that figure, while half fell below.

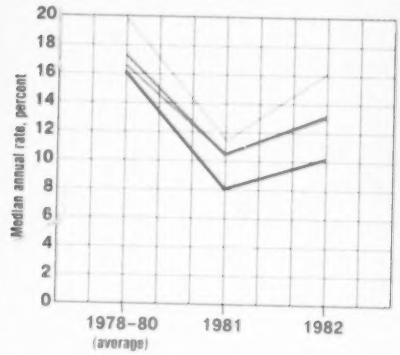
The other regions showed smaller but respectable gains for that period: the South, 6.4%; the Northeast, 5.2%; and the Midwest, 4.7%. Last year, though, the Midwest fell to almost zero, while the other three regions turned in figures between 2% and 3%. This year, firms in the West predict that annual employment growth will climb back to a 5.3% annual rate; the South and Northeast say they'll get a bit above 3%; and the Midwest sees itself attaining only 1.3%.

Other regional variations turned out as expected. The Northeast and Midwest, for

Chart 5: Small business growth by region

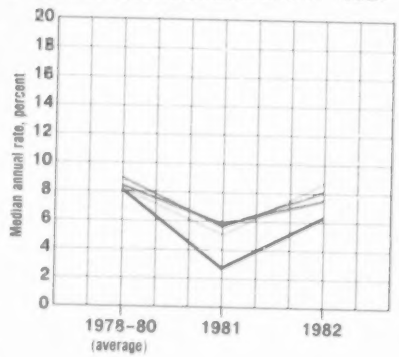
Sales

QUESTION: What is your firm's sales growth for: 1978–80 (average annual rate); 1981; your estimated rate for 1982?



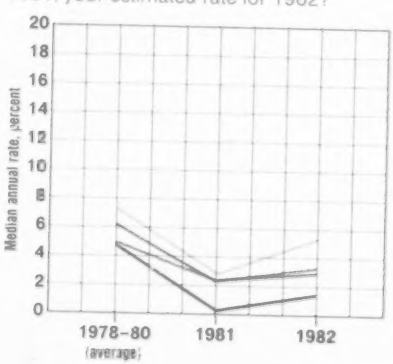
Profits

QUESTION: What is your firm's after-tax profits growth for: 1978–80 (average annual rate); 1981; your estimated rate for 1982?



Employment

QUESTION: What is your firm's employment growth for: 1978–80 (average annual rate); 1981; your estimated rate for 1982?



——— **Northeast** (Conn., Maine, Mass., N.H., N.J., N.Y., Pa., R.I., Vt.)

——— **Midwest** (Ill., Ind., Iowa, Kans., Mich., Minn., Mo., Nebr., N.Dak., Ohio, S.Dak., Wis.)

——— **South** (Ala., Ark., Del., D.C., Fla., Ga., Ky., La., Md., Miss., N.C., Okla., S.C., Tenn., Tex., Va., W.Va.)

——— **West** (Alaska, Ariz., Calif., Colo., Hawaii, Idaho, Mont., Nev., N.Mex., Oreg., Utah, Wash., Wyo.)

Rick Friedman

Shepard Lee, president, Lee Management Co., Auburn, Maine.

example, give a stronger vote to energy costs as a concern for 1982 than the South and West do—30 points as opposed to 18, according to the weighting method used in table 1. Another telling difference, perhaps: Small midwestern firms award a somewhat higher score to state and local taxes—12 points—versus 6 or 7 for the other three regions.

Also as expected, two industries show figures markedly different from all others: high technology, at the upper end of almost every scale, and construction, at the low end. With 35% of all firms reporting a significant modernization, capitalization, or improvement in 1981, for example, only 26% of companies in the construction industry did so, while 50% in high technology did. All will be down this year if the economy continues in its present condition: The proportion of high-technology firms saying they'll modernize falls to 37%, while in construction, the number is 16%, and for all industries together, the number is 23%.

Technology companies, though, are worrying a lot this year about competition from abroad, ranking that with interest and inflation concerns—far higher than any other industry or group puts it. Other manufacturing businesses accord special emphasis to raw materials costs. But for these standouts, most industries agree fairly closely with the overall ranking of priorities listed on table 1.

Chart 6 provides a hint as to which small businesses, besides those in the high-technology field, may prosper in the near future. Construction, wholesale trade, retail trade, manufacturing, and services all grew at about the same rate from 1978 to 1980. Not last year, though—and not this coming one, according to their own projections. While construction, trade, and manufacturing—making up more than one-half of the small business economy—dwindle, the service sec-

Chart 6: Sales growth in four small business sectors

QUESTION: What is your firm's sales growth for: 1978–80 (average annual rate); 1981; your estimated rate for 1982?

tor—another third—remains surprisingly strong.

LABOR

The national soul-searching about productivity is taking hold at the grass roots. Small business managers rate labor quality as surprisingly important in their agenda of economic concerns. In the ninth position, it falls just below credit markets, inflation, and economic growth as a major concern for 1982 (see table 1). Thus it's ahead of oft-heard gripes about taxes and government regulation—federal, state, and local. There's no discernible difference between the way large and small firms rated this concern.

This new preoccupation also manifested itself in the discussions at INC.'s 1982 outlook forums, where several participants described their efforts to elevate labor productivity.

The subject that usually comes to mind when anyone says "labor" is unions. Not to our sample of small businesspeople: Union activity is at the bottom of their list of headaches. Not even for the largest companies in our sample—the 4% who have sales above $50 million a year—do unions figure prominently.

Manufacturing company president. "For the first time in our company we are not increasing our wages. We are holding those who normally receive 8% or 10% increases to 5% this year, and we're reducing bonuses. In fact, I have talked to small, family-oriented businesses that are cutting wages.

"I found that I have five or six very well-paid professionals whose wages go up every year, and I could probably go out and replace them in the current market for 60% of what I'm paying them. Our profits are getting strained, so I'm saying I can't afford it anymore."—*William B. Anderson, president, Matrix Inc., East Providence, R.I., manufacturer of custom plastic components for the electrical transmission industry, with about $5 million a year in sales and 65 employees.*

Distribution company president. "We started out in 1936 as a retail laundry. Three years ago we decided to get out of the laundry business because it was our least profitable and most labor-intensive area, and it was in a declining industry. But I didn't have the guts to say I was going to lay off 35 people. There's a lot of emotion tied up in my business.

"So we decided instead to expand the laundry division, in association with the health-care industry. We see the hospital as being an integrated customer—over a time we can pick up one service, then another. From a business point of view, it makes a lot of sense. I see about 100 jobs being added to our present staff of 50 over the next year. We'll probably grow from $2 million in sales to $4 million in the next two years."—*Joseph A. Williams, president, Arrow Services Inc., Chicago, a commercial/industrial laundry and a distributor of uniforms and paper products, with annual sales of about $2 million and 50 employees.*

Manufacturing company president. "Ten or 11 years ago I was sent on a trade mission to Japan by the Chicago Association of Commerce and Industry. I soon learned that I couldn't teach the Japanese anything, so I hired an interpreter and asked him to take me around to small companies making miscellaneous metal products. I learned some things from these small businessmen that I put into practice.

"What I learned was, number one, when you hire somebody, don't consider him an employee; consider him part of the family. You don't fire him or lay him off. How do you do that? You have to hire a minimum number of people. If you think you need 50, don't hire more than 40. When you get very busy, either work overtime or obtain temporary help.

"But the nucleus, the people you employ permanently, are told they will have their jobs as long as the company stays in business. As a result, you get a certain type of productivity out of them. The results are much better than I can get in any other operation."—*Allan Harris, president, Harris Hub Co., Harvey, Ill., a manufacturer of bed frames and miscellaneous metal products, with sales of $20 million and 200 employees.*

Trade association executive. "Manufacturers are going to pay for marketing services as the marketing service is done, rather than making the very definite investment in salaries and sales forces. That way, their sales cost is exact and definite on the piece of goods that goes out the door to the shipping dock. The use of manufacturers' agents is increasing 20% per year. Our membership is increasing at least by that."—*James J. Gibbons, president, Manufacturers' Agents National Assn. in Irvine, Calif.*

Construction company executive. "We are cutting back. About 60% of our business has been road building for federal or state agencies. The state of Illinois has the smallest road program in this fiscal year, in real dollars, that it has had in 20 years. The private sector is so far down in this part of Illinois that those sales have almost been cut in half. We had a payroll of over $300,000 that we'll probably cut by $125,000.

"The other factor affecting us is the labor problems we've had this year and the enormous inflationary settlements that took place in the construction trades. As a result, I think you're going to see a tremendous influx of small construction companies popping up, and a tremendous movement to nonunion construction in the state. A company like ours, which has always been a union company, will have to consider that. We would never have thought of doing that until now."—*John Holub, executive vice-president, Rockford Blacktop Construction Co., Rockford, Ill., with 400 employees.*

Economist. "Our task force found that, from 1975 to 1979, firms with 20 or fewer employees accounted for 56% of net employment added in the economy. We also found that much of that creation is concentrated in relatively few firms over a relatively short term. Most of the gain in employment was added in the firms' first two years.

"Clearly, a lot of the firms disappeared. To get one net new job among new firms, we found, about two new jobs have to be created just to take account of the loss. Among old firms roughly three jobs have to be created just to get one net new job.

"This suggests that an emphasis on creation of new firms and new jobs is very important. You lose jobs no matter where you are in the country or in the business cycle. The difference between areas that are growing and dynamic and those that are not is in the creation of new employment rather than the prevention of the loss of old."—*Michael Teitz, professor of city and regional planning, University of California at Berkeley, and a member of the Urban Small Business Employment Project of the state of California in 1980, speaking at an* INC. *200 awards banquet in San Francisco, October 1981.*

This article contains selected results from INC.'s subscriber survey and comments by some participants in the three small business forums. For a complete summary of findings and a list of all the forum participants, write on your company letterhead to: Outlook Editor, INC. Magazine, 38 Commercial Wharf, Boston, MA 02110.